FINANCIAL TIMES

August 30, 2013 10:18 am

Singh seeks to calm India’s economic storm ahead of GDP data

By James Crabtree and Avantika Chilkoti in Mumbai

Manmohan Singh appears on television addressing parliament about the country's economic crisis

Prime Minister Manmohan Singh has made his most forceful intervention since the start of India’s currency crisis, pledging to take “all possible steps” to cut the current account deficit and seeking to reassure foreign investors anxious about his government’s faltering response.

Speaking in advance of first-quarter gross domestic product figures later on Friday, which he admitted were unlikely to show any upturn in the economy, Mr Singh called for renewed focus on structural reforms to support stumbling growth in India, including subsidy reductions and steps to raise foreign investment in sectors like insurance and pensions.

In remarks delivered to India’s parliament, the prime minister blamed overreactions from currency investors for the rupee’s recent sharp depreciation, although he admitted that domestic inaction had contributed to the growing sense of crisis that has gripped financial markets and undermined confidence in India’s growth prospects.

“Foreign exchange markets have a notorious history of overshooting. Unfortunately this is what is happening,” he said.

“The rupee has been especially hit because of our large current account deficit and some other domestic factors . . . There has been a huge deterioration mainly on account of our huge imports of gold [and the] higher costs of fuel oil imports and coal.”

Mr Singh sought to hearten foreign investors, repeating a previous pledge not to introduce new capital controls and saying his government would seek to attract new capital flows as part of a plan to reduce its current account deficit to $70bn during this financial year.

The prime minister also said he would do “whatever is necessary”, including introducing cuts to politically sensitive subsidy programmes, to meet a fiscal deficit target of 4.8 per cent of GDP, and appealed to India’s opposition parties to back further reform measures.

“The easy reforms of the past have been done. We have the more difficult reforms to do,” he said, asking for support to pass pending legislation opening up the insurance sector to foreign companies, and introducing long-awaited tax reforms.

Opposition leaders quickly rejected such advances, however, staging a walkout in parliament and criticising Mr Singh for repeatedly promising reforms that ultimately fail to materialise.

“It is a most disappointing, frustrating statement the Prime Minister has chosen to give,” said Yashwant Sinha, a former finance minister for the opposition Bharatiya Janata Party. “He used words which have no meaning and he hasn’t said anything new.”

“’Relatively flat’ means what?” he added, in reference to Mr Singh’s remarks about his expectations for quarterly GDP growth later on Friday. “Below even the 4.8 per cent mentioned in the newspapers? So, brace yourselves. We are in for very very difficult times.”

India’s Sensex index of leading shares fell around 1 per cent following Mr Singh’s speech, reflecting similar concerns from investors over the government’s ability to deliver promised reforms, a concern that is echoed by analysts.

“The economic situation is now bad, even if its not quite the crisis economies like India saw in the 1990s,” says Eswar Prasad, an economist at the Brookings Institution.

“But the market has so far discounted what the government has done, because all we have seen is measures like the Food Security bill, which while noble in its intention, is really not what is needed from an economic point of view at the moment.”